BDC
Entrepreneurs first

economic LETTER

JULY/AUGUST 2015

THE CANADIAN TOURISM INDUSTRY HAS WIND IN ITS SAILS!

The current exchange rate and oil prices are favourable for Canada's tourism industry

Summertime is upon us, and you will probably take advantage of it to go on holiday. Some of you will go abroad, but others will choose to travel within Canada. Many foreigners will also come to visit us at this time of year. We thought, therefore, that for this summer edition of the Economic Letter, a little excursion to Canada's tourism industry was in order!

Tourism generates a great deal of economic activity

The tourism industry represents approximately 2% of Canada's gross domestic product (GDP) and generates over 600,000 jobs. Tourist spending in this country, which amounted to approximately $90 billion in 2014, was generated for the most part by Canadians: only 20% of total spending came from foreign visitors.[1]

Tourism indicators (2014)

Jobs	627,600
Share of Canadian gross domestic product (GDP)	2%
Total tourist spending (billions of dollars)	90.0
Tourist spending by Canadians (billions of dollars)	71.7
Tourist spending by foreigners (billions of dollars)	18.3

Source: National Tourism Indicators, Statistics Canada

Ontario is the province that attracts the most tourists

The province that receives the largest number of visits by Canadian residents is Ontario, followed by Quebec (Graph 1). This has nothing to do with the attractions of these two provinces compared with those of the western or Atlantic provinces. It is simply due to the fact that it is easier and, above all, less expensive for Canadians to visit neighbouring provinces rather than those farther away. And Ontario and Quebec are not only neighbours, but they have the largest populations of all the Canadian provinces. In fact, the percentage of visits that a province receives is closely tied to its percentage of the Canadian population. ▼

1 The data on tourist spending are available in 2007 dollars only. The data in current dollars were estimated based on the assumption that the inflation rate has been 2% per year, on average, since 2007.

Canada
- GDP starts off the second quarter with a pullback
- Job growth slows
- Exports decline, the balance of trade deteriorates
- Housing starts rose in June, but are down for the year to date

United States
- Job growth is up, and the unemployment rate is down
- The housing start trend is still positive and home sales are increasing
- The purchasing managers' index points toward sustained growth

Interest rates
- The Bank of Canada lowers the overnight rate target by 25 basis points

Oil price

Canadian dollar

SME confidence

Credit conditions

Key indicators

BDC's Monthly Economic Letter is prepared by the Economic Analysis team from Marketing and Public Affairs and is based on a variety of public sources of economic data. The information in this letter is drawn from data released prior to July 16. Reliance on and use of this information is the reader's responsibility.

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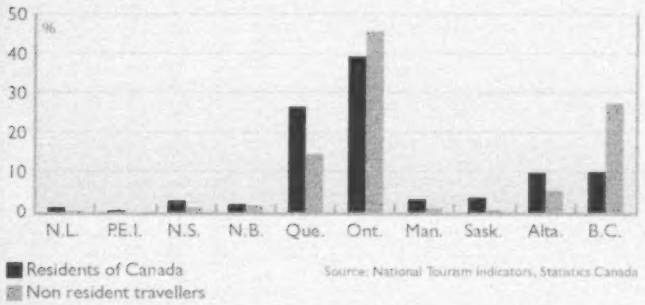
Ontario also attracts the largest number of foreign tourists.[2] After Ontario, British Columbia is the most popular destination for foreign visitors, followed by Quebec (Graph 1).

Graph 1: Ontario attracts the most tourists, be they Canadian or foreign

(Share of visits by Canadian residents and share of international tourists entering Canada, by province, 2014)



Source: National Tourism Indicators, Statistics Canada

Foreign tourists come mainly from the United States

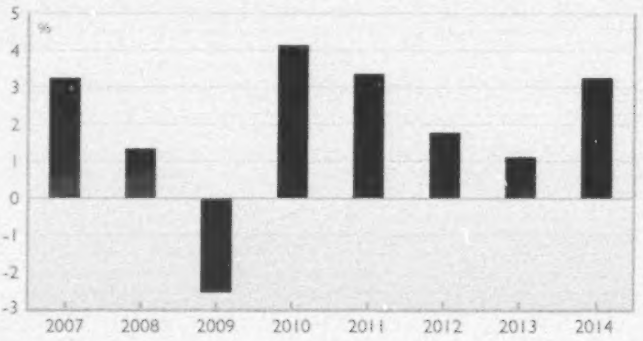
The vast majority of foreign visitors, or 70%, are Americans, which is hardly surprising given their proximity. Approximately half of the other foreign tourists come from Europe—primarily the United Kingdom, France and Germany—and one third come from Asia—mainly China and Japan. The standard of living in the emerging countries is rising, and therefore larger numbers of their citizens are travelling. Canada is an increasingly popular destination among the Chinese: the number of travellers from that country has climbed by 14% per year, on average, since 2000. The numbers of Indian, Brazilian, Mexican and Filipino tourists have also been rising sharply in the past 15 years.

The Canadian tourism industry is doing well

After decelerating for three consecutive years, growth in tourist spending in Canada picked up in 2014 (Graph 2). The increase is attributable to transportation services, especially air transport, where spending had declined in 2013, as well as to accommodation and food services, although to a lesser degree. Tourist demand has accelerated, among both Canadian residents and international travellers.

Graph 2: Tourist demand accelerated in Canada in 2014

(Annual change in tourist spending in 2007 dollars, 2007 to 2014)



Source : National Tourism Indicators, Statistics Canada

This result is no doubt largely due to the depreciation of the Canadian dollar against many currencies, including the U.S. dollar, the euro and the pound sterling, which occurred between 2013 and 2014. A weaker Canadian dollar makes it more expensive for Canadians to travel abroad, encouraging them to stay in the country. At the same time, for foreigners whose currency has appreciated against the loonie, tourist costs in Canada are lower, encouraging them to spend time here.

The outlooks for 2015 are good

Tourist spending recorded its eighth straight upturn in the first quarter of 2015. Spending by Canadian tourists rose by 1.0% compared with the previous quarter, while that of foreign tourists edged up by 0.3%. The gross domestic product (GDP) of tourism grew by 0.4% in the first quarter. By comparison, national GDP contracted by 0.1% during that period. Lastly, the number of jobs generated by tourism increased by 0.4% in the first quarter, reaching 633,900.

According to the World Tourism Organization (UNWTO), over 1.1 billion people in the world travelled abroad in 2014.[3] The Organization expects strong growth in foreign tourism in North America in 2015, on the order of 4% to 5%. Lower oil prices have reduced transportation costs, which will stimulate tourism, according to the UNWTO. For the time being, the Canadian dollar is also at a level that stimulates the industry, and that should continue in the months to come, barring a significant turnaround in oil prices, on which it strongly depends. It therefore seems that Canada's tourist industry will once again enjoy favourable tailwinds this year. ■

2 This statement is based on the data on numbers of international visitor arrivals, by province of entry, published by Statistics Canada. It is possible that a foreign visitor may enter Canada by one province and then visit one or more other provinces, but those subsequent visits do not show up in these statistics.

3 http://media.unwto.org/press-release/2015-01-27/over-11-billion-tourists-travelled-abroad-2014, accessed July 9, 2015.

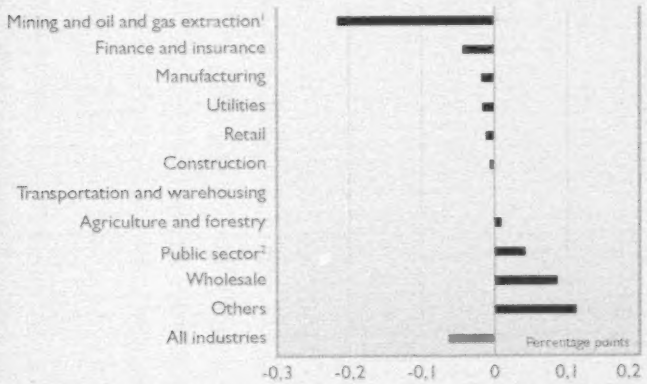
After the first-quarter contraction in real GDP, forecasters were expecting a firm recovery in economic activity in the second quarter, fueled by a rebound in demand from the United States and an export-friendly exchange rate for the Canadian dollar. Unfortunately, recent indicators do not support those expectations. On the contrary, growth may even turn out to be negative for a second straight quarter.

GDP starts off the second quarter with a pullback

Real GDP, which contracted at an annual rate of 0.6% in the first quarter, continued that trend in April, slipping by 0.1% compared with the previous month. Production declined in most of the main industries, but especially in mining, quarrying and oil and gas extraction. Production also saw a downturn in the finance and insurance sector and in manufacturing. These slumps were partly offset by growth in the public sector and in wholesale trade (graph). A rebound of growth in the second quarter is now quite unlikely. On the contrary, real GDP growth could even turn out to be negative for the second quarter in a row, which would mean that Canada is in recession. In order for real GDP not to contract in the second quarter, it would have to grow by 0.26% per month, on average, during the next two months.

Most industries made negative contributions to real GDP growth in April, particularly mining and oil and gas extraction

(Contributions by the main industries to monthly real GDP growth in April 2015)



1. Includes quarrying
2. Education, health and public administration

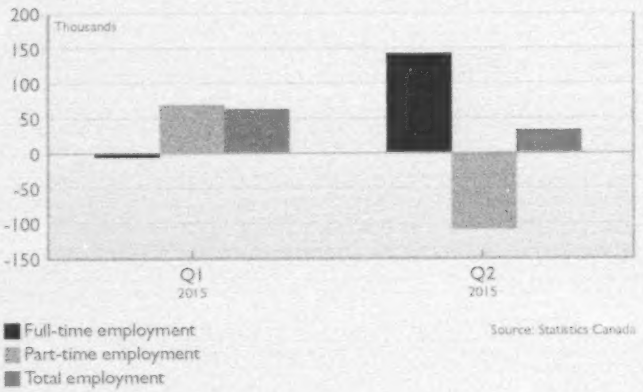
Source: Statistics Canada

Job growth slows

In June, 64,800 full-time jobs were created while 71,200 part-time jobs were lost, resulting in a net loss of 6,400 jobs. The unemployment rate held steady at 6.8%. Job growth was slower during the second quarter than in the first (+32,800 versus +63,100). However, the gains were concentrated in full-time jobs in the second quarter, whereas only part-time jobs increased in the first quarter (graph). The biggest job losses since the beginning of the year have been recorded in the information, culture and recreation sector, in natural resources (including oil extraction), in public administration and in construction. These losses were more than compensated by solid gains in most of the other sectors.

Second-quarter gains were concentrated in full-time jobs

(Change in total, full-time and part-time employment, Q1 2015 and Q2 2015)



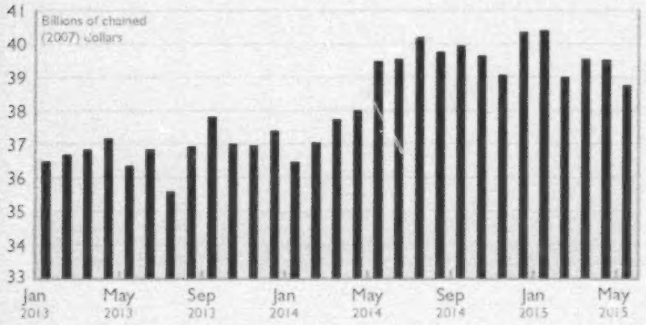
Source: Statistics Canada

Exports decline, the balance of trade deteriorates

A 0.6% slump in exports, combined with a 0.2% rise in imports, resulted in a deteriorating trade balance: the deficit expanded from $3.0 billion in April to $3.3 billion in June. Exports were down in many industries, but especially in the mining sector. Since January's peak, the volume of exports has been following a downward trend (graph). Unless a spectacular rebound materializes in June, the contribution by exports to real GDP growth will again be negative in the second quarter. ▼

After peaking in January 2015, the volume of exports has declined

(Merchandise exports, chained dollars (2007), January 2013 to May 2015



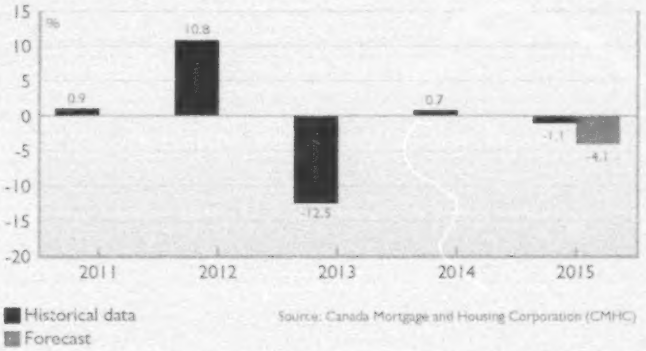
Source: Statistics Canada

Housing starts rose in June, but are down for the year to date

The number of housing starts was up by 3.0% in June, month over month. In urban centres, starts of single-family homes rose by 2.0% in June, and starts of multiple-unit projects by 3.7%. The number of units started from January to June 2015 is 1.1% below the number started during the same period of last year (graph). The Canada Mortgage and Housing Corporation is forecasting that housing starts in Canada will decline by 4.1% in 2015.■

The slump in housing starts observed since the beginning of the year should continue

(Annual growth in housing starts, 2011 to 2015*)



Source: Canada Mortgage and Housing Corporation (CMHC)

* Blue bar = January to June 2015 compared with the same months last year; red bar = CMHC forecasts

★ UNITED STATES

Back

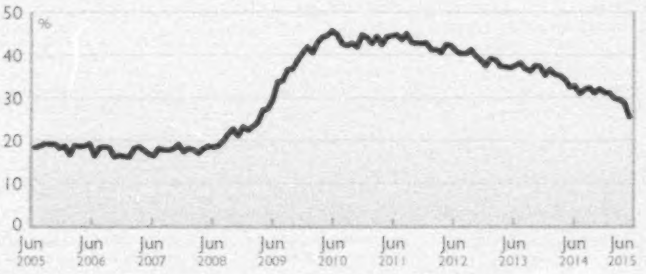
The latest indicators lead us to believe that economic activity picked up steam in the second quarter, as expected. Job growth is steady and activity in the housing market is still brisk. According to the manufacturing purchasing managers' index, economic growth is accelerating.

Job growth is up, and the unemployment rate is down

Non-farm employment recorded 223,000 new jobs in June. This is a good number compared with the average monthly gain of 205,000 that was observed during the first five months of the year. The unemployment rate dipped by 0.2 of a percentage point to reach 5.3%, its lowest level since April 2008. The number of long-term unemployed (27 weeks or more) fell significantly in June. The proportion of such workers in relation to total unemployed workers dropped, and moved closer to where it stood prior to the recession; this bodes well for the future (graph).

Among total unemployed, the proportion of long-term unemployed fell significantly in June

(Long-term unemployed as a percent of total unemployed, June 2005 to June 2015)



Source: U.S. Bureau of Labor Statistics

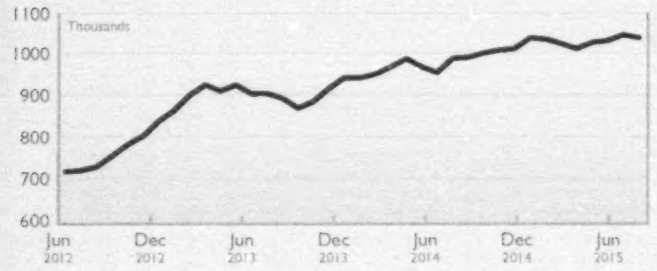
The housing start trend is still positive and home sales are increasing

Housing starts fell by 11.1% in June after climbing by 12.5% in the previous month. Given that monthly housing start data have been quite volatile in recent months, it is best to analyze them based on the six-month moving average, which better▼

reflects their trend. In doing so, we note that the trend is still positive, but that growth has slowed in recent years (graph). Meanwhile, home resales were up by 5.1% in May, reaching a seasonally adjusted annual volume of 5.35 million units; this is their highest level since November 2009.

The housing start trend is still positive

(Housing starts, six-month moving average, June 2012 to June 2015)



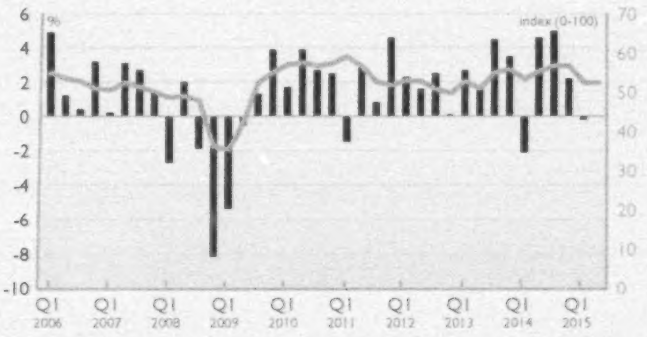
Source: U.S. Census Bureau

The purchasing managers' index points toward sustained growth

The manufacturing purchasing managers' index compiled by the Institute for Supply Management gained 0.7 of a percentage point compared with the previous month, reaching 53.5 in June. This index is a good leading indicator of activity in the manufacturing sector and the economy in general. According to the President of the Institute, based on the historical relationship between the index and economic growth, the average of the index from January to June, which stands at 52.6, corresponds to an annual rate of real GDP growth of 3.0%. This suggests that real GDP growth, which was negative in the first quarter, should rebound in the second quarter (graph).■

The Purchasing Managers' Index points towards sustained economic growth

(PMI in the manufacturing sector and annualized quarterly real GDP growth in the United States, Q1 2006 to Q2 2015)



Source: U.S. Bureau of Economic Analysis et Institute for Supply Management

INTEREST RATES

Back

The Bank of Canada lowers the overnight rate target by 25 basis points

On July 15, the Bank of Canada lowered the target for the overnight rate by 25 basis points. The key interest rate, which had been standing at 0.75% since January 21, is now at 0.50%. July's Monetary Policy Report states that the Bank believes real GDP contracted in the second quarter of 2015. Since two consecutive quarters of negative growth is the technical definition of a recession, this means that the Bank believes Canada has crossed this threshold and officially entered into recession. Growth has been slower than expected in the first half of the year, but the Bank believes that the third quarter will see a pickup in growth thanks to non-resource related activity. Despite this anticipated recovery, the Bank revised its projections of 2015 real GDP growth considerably. It expects growth of just 1.1% this year, accelerating to 2.3% in 2016.■

OIL PRICE

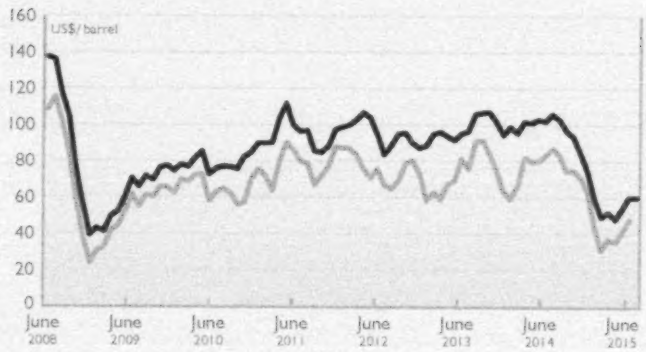
Back

Crude oil prices remain stable

After two months of increases, the price of crude oil, based on that of West Texas Intermediate, stabilized in June (graph). The Greek crisis generated a good deal of uncertainty about global economic outlooks, which tends to influence oil prices downward. However, the overabundance of supply is the main factor that put a halt to rising prices. As a result of the recently concluded Iranian nuclear agreement, international sanctions against the country will be lifted in the coming months. This should result in a pickup in Iranian oil production, which will only add to excess supply in the marketplace and put further downwards pressure on prices. ■

Crude oil prices are stabilizing

(Prices of West Texas Intermediate and Western Canadian Select, June 2008 to June 2015)



Sources: Global Insight et Alberta Treasury Board and Finance

CANADIAN DOLLAR

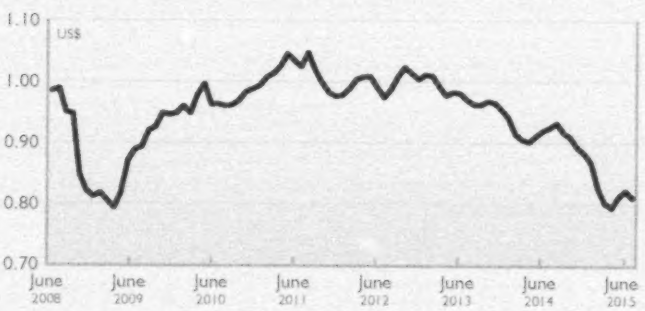
Back

The Canadian dollar depreciates

The Canadian dollar depreciated by 1.4% against the U.S. dollar in June (graph). April's contraction in Canadian real GDP sparked fears of a recession, and some observers anticipated that the Bank of Canada would lower the overnight rate to support economic growth. In the United States, despite the first-quarter pullback in real GDP, the Federal Reserve still seems to be contemplating a hike in the federal fund target rate by the end of this year. The divergences between interest rate outlooks in Canada and the United States—downward in Canada and upward in the U.S.—are largely responsible for the loonie's depreciation against the greenback in June. ■

The loonie depreciated against the greenback in June

(Canada/United States exchange rate, June 2008 to June 2015)



Source: Bank of Canada

SME CONFIDENCE

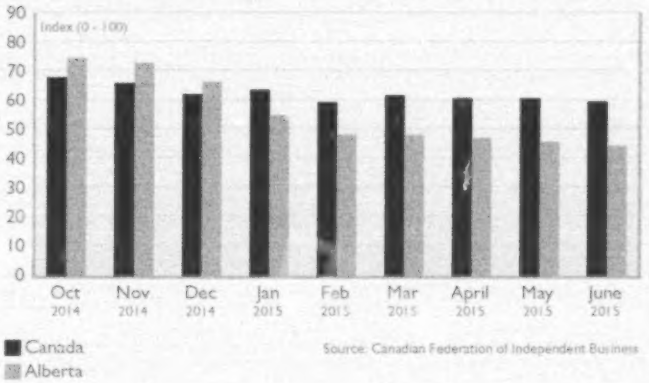
Back

SME owners' confidence deteriorates further

The Business Barometer Index compiled by the Canadian Federation of Independent Business lost 1.2 percentage points in June, landing at 59.4. SME owners' confidence fell in half of the main industries, with the sharpest decline being observed in the construction sector. Looking at the regions, three provinces posted a decline in June: Prince Edward Island, Alberta and British Columbia. This is the eighth straight monthly drop in Alberta, and that province is showing the lowest level of confidence (graph). On the other hand, despite the declines noted in Prince Edward Island and British Columbia in June, the SME owners in those provinces are still the most optimistic in the country. ■

Confidence among SME owners in Alberta is down for the eighth straight month in June

(Business Barometer Index, Canada and Alberta, October 2014 to June 2015)



Source: Canadian Federation of Independent Business

BUSINESS CREDIT CONDITIONS

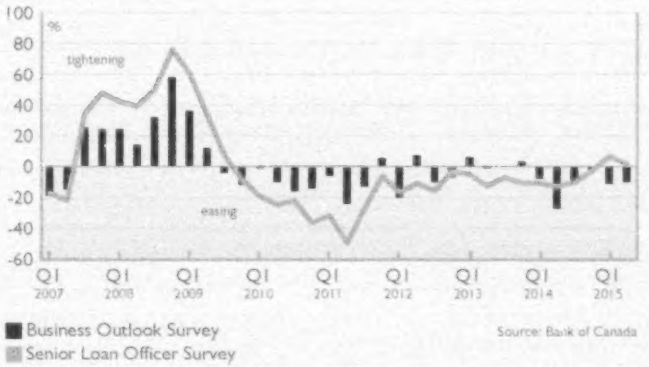
Back

Business credit conditions are still favourable

Business credit conditions eased in the second quarter of 2015, according to the Business Outlook Survey, or they remained stable, according to the Senior Loan Officer Survey (graph). In general, apart from firms tied to the oil sector, Canadian businesses reported that they were having no trouble obtaining credit. ■

Business credit conditions are still favourable

(Credit conditions, balance of opinions, Q1 2007 to Q2 2015)



Source: Bank of Canada

KEY INDICATORS—CANADA

Back

Key indicators—Canada

	Historical[1]				2015[2]				2015		Forecast	
	2011	2012	2013	2014	Q1	Q2	Q3	Q4	Latest[3]		2015	2016
Real GDP (% growth)	3.0	1.9	2.0	2.4	-0.6				April	-0.1	1.9	2.2
Machinery and Equipment Expenditures (% growth)	8.1	1.9	1.0	1.0	-7.4						-0.6	2.9
Pre-Tax Corporate Profits (% growth)	23.3	-6.7	0.7	10.8	-53.8						-4.7	6.1
Industrial Production (% growth)	4.1	1.4	1.8	4.1	-4.5				April	-1.2	1.0	2.0
Industrial Product Prices (% growth)	6.9	1.1	0.4	2.5	-0.2				May	0.5	-1.2	2.2
Non-Residential Construction (% growth)	15.9	13.5	5.0	-0.1	-19.7							
Housing Starts ('000 units)	193	215	188	189	175	193			June	203	177	177
Personal Expenditures (% growth)	2.2	1.9	2.5	2.7	0.4						2.1	2.1
Consumer Price (% growth)	2.9	1.5	1.0	1.9	-0.2				May	0.6	1.1	2.1
Employment (% growth)	1.5	1.3	1.4	0.6	0.7	0.8			June	0.0		
Unemployment Rate (%)	7.5	7.3	7.1	6.9	6.7	6.8			June	6.8	6.8	6.7
SMEs Confidence Index (CFIB)	66.3	63.9	63.9	64.9	61.4	60.2			June	59.4		
Manufacturers Confidence Index (CFIB)	67.3	66.5	63.8	65.8	61.9	57.8			June	58.5		

1. Annual growth rate
2. Quarterly growth, at annual rate
3. Month-over-month growth

Sources: Statistics Canada, Consensus Economics and Canadian Federation of Independent Business.

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